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## **HOW WRONG WAS SOMBART?**

Werner Sombart, a political economist of some note, was born and died in Germany. He studied law, economics, history and philosophy at the Universities of Berlin, Rome, and Pisa, and eventually became professor of economics in Berlin. He was a student of the so-called *Katheders* Socialists Schmoller and Wagner in Berlin, and as a young man Sombart became a Marxist. He was probably too bright to be a Marxist for long and he eventually became an anti-Marxist; in fact, his *Modern Capitalism* is really a book in praise of capitalism, in which he predicted that capitalism would reach its zenith in the twentieth century. Late in life he became apologist for the national socialists, but the Nazis did not accept him in this role primarily because his observations on the role of Jews in the middle ages conflicted with their own theories.

In terms of sheer volume of publications and translations of his publications, Sombart must be reckoned as one of the more successful economists of his time, but he failed to form a school or disciples for his views, and must be regarded as a historical curiosity at the present time. This is probably because he combined the social and historical views of his economic thought into an exciting but rather unstable mixture in a manner which subsequent generations have come to view as unscientific.

### *The Sombart Propositions*

The so-called "Sombart Propositions" have received considerable attention in recent accounting literature. Basil Yamey reviewed them critically in two articles.<sup>1</sup> Winjum has identified "substantial academic support for the Sombart thesis,"<sup>2</sup> and I have revisited them myself.<sup>3</sup> The propositions relate to the role of accounting in the development of capitalism.

In fact, Sombart went so far as to state that the introduction of accounting was of the highest importance for the development of capitalism, and clearly, such perception deserves special study.

How did he arrive at this conclusion? Sombart took as his point of departure a pre-capitalistic feudal Europe in which the goal of every man was a sufficiency for existence. He then observed that, at some point, the profit motive replaced satisfaction of personal wants as the driving force in society. He posed the question: By what means did this take place? What turned the pre-capitalistic artisan or craftsman into the capitalistic manufacturer? His answer was that man developed two faculties: to calculate and to save, and the significance of accounting was that it combined these two skills into a powerful management tool: the firm—the capitalistic firm viewed as an accounting entity.

Shortly stated, Sombart saw the invention of double-entry bookkeeping as a device for rendering objective the concept of capital. He wrote that “the representation of the firm in terms of accounts, particularly the representation of the ownership interests, in the form of the capital accounts, renders objective the idea of wealth, and dissociates it from the human persons who are engaged in the enterprise.” The idea of capital was divorced from all want-satisfying objectives or motivations of the people who took part in the development of the firm, and this led directly to the formulation of economic rationalism: *Quod non est in libris non est in mundo*. By this means, production and distribution were reduced to calculations, which meant that the tools of mathematics could be used to plan saving and investment and to further the growth of capitalism.

In a striking passage Sombart used the words which Goethe put into the mouth of Wilhelm Meister’s brother-in-law: “Double-entry bookkeeping is one of the most beautiful discoveries of the human spirit.” He went on to explain that:

If its significance is to be correctly understood, it must be compared to the knowledge which scientists have built up since the sixteenth century concerning relationships in the physical world. Double-entry bookkeeping came from the same spirit which produced the systems of Galileo and Newton and the subject matter of modern physics and chemistry. By the same means, it organizes perceptions into a system, and one can characterize it as the first Cosmos constructed purely on the basis of mechanistic thought. Double-entry bookkeeping captures for us the essence of an economic or capitalistic world by the same means that later the great scientists used to construct the solar system and the corpuscles of the blood. Without too much difficulty, we can recognize in double-entry book-

keeping the ideas of gravitation, of the circulation of the blood, and of the conservation of matter. And even on a purely aesthetic plane we cannot regard double-entry bookkeeping without wonder and astonishment as one of the most artistic representations of the fantastic spiritual richness of European man.

One less endowed with scholarly virtues would have succumbed here and accepted the compliment. But on reading this passage, I remembered having encountered somewhere a reference to a nineteenth century controversy concerning whether the Romans used double-entry bookkeeping. If they had done, this would have been fatal to Sombart's arguments: why should double-entry bookkeeping produce capitalism in the fourteenth century and not in Rome 1500 years before? I therefore began to research what was known on Roman accounting and, of course, found very little. As De Roover has pointed out, the Romans kept their accounts on wax tablets which turned out to be a very perishable material. It is in fact rather strange that we know so little about Roman accounts, because we do have records of Greek and Egyptian accounts, quite comprehensible records. Indeed, one of the fascinating by-ways of archaeology concerns the discovery at Ur of the Chaldees of Babylonian accounts from 4,000 years ago. These accounts belonged to a trader named Ea Nasir and when they were deciphered it was discovered that he had been losing money.<sup>4</sup>

All we know about Roman accounting comes from a few orations of Cicero, an ode by Pliny the Elder and one line of Columella—that is all. Perhaps one day someone will discover, like the Dead Sea Scrolls, piles of Roman wax tablets and provide work for accounting scholars ever afterwards. The nineteenth century controversy about double-entry accounting in Rome was something the French call a *dialogue des sourds*—a debate between the deaf. On the one hand, there were accountants with no training in classical scholarship, who insisted on making wild conjectures on the basis of sources of very dubious validity. On the other hand, there were the classicists who had access to the original sources but whose knowledge of business in general, and accounting in particular, was so slight that it did not permit them to interpret.

We may briefly review what is known about Roman accounting. It is clear that the Romans kept accounts. Cicero in his Verrine oration says "every household in Rome keeps accounts," but this is believed to be a typical Ciceronian flourish. It is probably no more true to say that every household in Britain or the U.S.A. keeps ac-

counts. The physical form of the account was called the *nomen*, the word also used for entry, and the abstract concept of Sombart was called the *ratio* hence accountants (in Italy) at the present time are called *ragioneri*. A book containing accounts was a *codex*, or colloquially, a *tabula*, and the abstract concept of a ledger, or book of accounts, was designated *rationes*. Bankers kept personal accounts for their customers called *calendaria* because, it is believed, they contained notes of the due dates of payments of loans or interest on them, perhaps both. More or less rough memoranda called *adversaria* were used as books of original entry. A *codex* or *tabulae acceptae et expensae* was a sort of cash book.

On the basis of this scanty information, scholars of the nineteenth century wrote books; some writers asserted that, because it was obvious that the Romans were keeping receipts separately from payments, they were therefore using debits and credits, and debits and credits are the stuff that double-entry is made of: to which a classicist might reply not only that this did not follow, which is true, but further that the very ideas of debit and credit were alien to the Roman mind. A reply might be that the Romans did use words like *credidit* and *dehabet* from which the modern debit and credit are derived. And so on and so forth.

My researches led me to a book by a German historian, Barthold Niebuhr, *Römische Geschichte, The History of Rome*, which was translated into English in 1835, and in a note on page 448 of volume II of the German edition, I found the following statement: "I have shown in the notes on the Vatican fragments of the oration *Pro Fonteio*, that the system of bookkeeping by double-entry, so far from being an invention of the Lombards, is as old as the Romans, and was used by the Quaestors in their accounts."

Where were these Vatican fragments? Where were Niebuhr's notes? The reference was obviously to a Ciceronian oration; a library search revealed that Cicero's *Pro Fonteio*, together with another oration *Pro Rabirio*, was published with an introduction by B. G. Niebuhr in Berlin in 1820. Neither had been translated into English, and there was one copy in the U.S.A., in the library of the University of Virginia.

The Latin teacher at Gainesville High School in Florida, Mrs. Beatrice Sweeney, was the widow of a professor of accounting at the University of Florida. Some years earlier, her husband had encouraged her to write her master's thesis on the subject of insurance contracts in ancient Rome. Thus, not only was she a Latin scholar,

but also familiar with the business terminology. She very graciously agreed to translate the fragments of the oration and Niebuhr's notes.

These Vatican fragments, as the name implies, consisted of only three papyrae, numbered but not in consecutive order, discolored, severely damaged by time, many words and phrases missing. It was only through a piece of scholarly detective work that Niebuhr was able to reconstruct the story they contained. At the relevant time, Rome was experiencing a period of very intense monetary disorders of the same kind that we have at the present, and a currency reform was one of the measures adopted to try to arrest inflation. The currency reform appears to have been of this nature: the denomination of the money was kept, but new money was issued bearing a certain ratio to the old money; in this case one new sesterce was equal to four old ones. Exactly the same device was used by the French a decade ago, in the same circumstances, when they recalled old francs, and issued new francs in the ratio of one new franc for one hundred old francs.

In 87 B.C. a law was passed, bearing the name of the *Consul Valerius Flaccus*, which permitted debtors to discharge debts incurred before the revaluation or the reissue of the currency, by paying one-fourth of the face value of the debt. It is easy to imagine the situation; the amount of money in circulation had been drastically reduced and it was no longer possible for debtors to pay the nominal amount they owed, so that one who had borrowed 400 sestertia before the revaluation of the currency was able to settle that debt by paying 100 of the new money.

In the year 70 B.C. a Roman official named Marcus Fonteius, who had been governor of a province in Gaul, was accused of having embezzled public funds while serving as a Quaestor. The form of the alleged crime was that he reported debts incurred after the date of the currency change as if they had been incurred *before*, and kept for himself three-fourths of the money paid in settlement. He was accused of having defrauded the Republic by retaining money which should rightly have been remitted to the Treasury. Cicero was retained to defend Marcus Fonteius and the fragments, presumably verbatim reports of the pleadings in the case, have given everyone who has had the opportunity to try to interpret them great difficulty. Niebuhr, however, seized on one passage as follows: "For as to the fact that Fonteius' office wasted time in three-fourths and one-fourth records, which he says were set up by Hirtuleius. . . . In this respect, moreover, you praise Hirtuleius. Is Fonteius found to have done the same things? . . . You laud him, Hirtuleius, because

he arranged records of three-fourths off: Fonteius set up the same with the same currency."

In his notes on the oration Niebuhr had this to say: "Clearly, therefore, Lucius Hirtuleius, a Quaestor in my opinion, during that year when the Valerian law was passed, had with the best intentions, set up account books of two kinds: both for three-fourths and one-fourth. For as often as he would pay a debt of one-fourth, he would enter the other three-fourths. And if he would receive a debt of one-fourth he would enter the other three-fourths. He would show either a gain or a loss."

"Now," says Niebuhr, "someone who maintains a system of keeping accounts which is called double, and which we Europeans outside Italy call Italian, will perceive that this is no different from what bankers and merchants are now doing. And, hence, it is apparent that the use of these accounts was by no means introduced, as is often said, 700 or 800 years ago, but was survived in Italy from the early times of the Romans."

In short, Niebuhr seized upon the very same feature of accounting that had so excited Sombart, namely the ideas of a closed system, a mental construct, or set of mental constructs, and he saw evidence in this passage that this system was of the same nature as the system which we call double-entry bookkeeping. And if that were true, then one of Sombart's most striking propositions concerning the role of accounting in the rise of capitalism would have to be seriously contested.

As indicated earlier, Sombart's reputation is considerably tarnished at the present time. He was particularly undistinguished as an economic forecaster. Writing shortly before the first world war, he forecasted a declining world population, the end of large-scale wars, and the impending demise of capitalism. His problem, which was brought to his attention in the friendliest manner by Max Weber, was a failure always to distinguish clearly between the logical and the empirical.

Whether Sombart did not know of Niebuhr's observations, or whether he knew of them but failed to mention them in his great work *Der Moderne Kapitalismus*,<sup>5</sup> will remain one of the enigmas of accounting history. It is a sobering thought, however, that the nature of accounting as a mental system, or set of concepts, was so well understood by a layman like Niebuhr at the beginning of the nineteenth century, as well as by the economic historian Sombart one hundred years later.

FOOTNOTES

<sup>1</sup>"Scientific Bookkeeping and the Rise of Capitalism," in W. T. Baxter (ed), *Studies in Accounting*, Sweet and Maxwell, 1950 and "Accounting and the Rise of Capitalism: Further-Notes on a Theme by Sombart," *Journal of Accounting Research*, Autumn 1964.

<sup>2</sup>James Ole Winjum, *The Role of Accounting in the Economic Development of England: 1500-1750*, Center for International Education and Research in Accounting, 1972.

<sup>3</sup>Kenneth S. Most, "Sombart's Propositions Revisited," *The Accounting Review*, October 1972.

<sup>4</sup>See Geoffrey Bibby, *Looking for Dilmun*, New York, Knoff, 1969.

<sup>5</sup>3rd ed. Munich and Leipzig: Duncker and Humblot, 1919.

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